TRINITY CAPITAL
INVESTMENT BANKING

Restaurant Industry Commentary
&
2nd Quarter 2016 SSS

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Same-Store Sales Discussion and Analysis

During the second quarter of 2016 ("Q2 2016"), the restaurant industry saw same-store sales ("SSS") decline for the first time in 25 quarters. On average, the restaurant industry's same-store sales declined 0.3% year-over-year ("YOY") in Q2 2016. In fact, of the 72 companies that constitute our quarterly same-store sales restaurant index, only 56% of the concepts enjoyed positive same-store sales growth in Q2 2016. The SSS data in the last six quarters has showed a consistent slowing for the industry, but this quarter's nominal contraction in industry sales is particularly concerning.

Fine Dining: The fine dining segment saw an average same-store sales decline of 0.1% YOY for Q2 2016. As the chart to the right illustrates, fine dining sales have yet to fully return to pre-recession levels and is now 7.3% below 2008 sales. Capital Grill continues to lead the segment with a positive 3.7% same-store sales increase in Q2 2016.

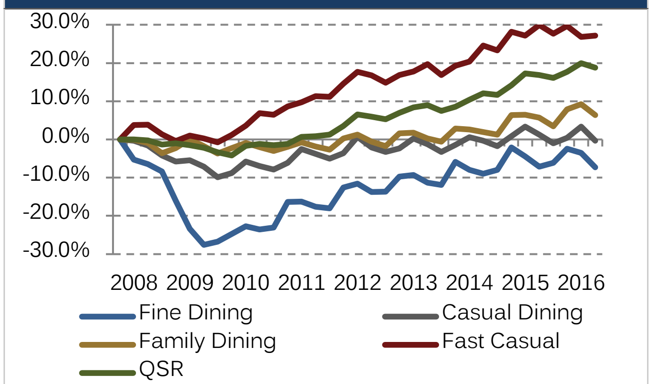
Casual Dining: Average same-store sales in the casual dining segment declined 1.6% YOY for Q2 2016. In fact, 15 of the 24 of the concepts experienced negative growth for the quarter. According to Knapp-Track, casual dining guest counts were down 2.9%, 2.8% and 3.1% in April, May and June, respectively. That amounts to negative guest counts in 79 of the last 90 months, which indicates just how challenging the last seven years have been for this segment. Increasing prices to offset traffic declines is not a sustainable long-term solution.

Family Dining: The family dining segment posted an average YOY same-store sales growth of 0.7% for Q2 2016. According to Knapp-Track, family dining guest counts were down 3.2%, 2.3% and 3.4% in April, May and June, respectively. In a segment that is always facing competitive pricing pressure, this consistent decline in traffic is a significant headwind.

Fast Casual: The ongoing challenges for Chipotle have been a major drag on the segment's average sales performance. After 25 quarters of SSS growth, the fast casual segment has had negative performance in the last two quarters. In Q2 2016, SSS declined of 2.2% YOY; however, excluding Chipotle's massive SSS decline of 23.6%, the segment was flat YOY. This segment has been the bright spot in the industry, so it is worth noting that 9 out of the 11 concepts in the segment showed slower growth than the previous quarter.

QSR: In the QSR segment, 19 of the 24 concepts we track showed positive same-store sales growth during Q2 2016, with the segment up an average of 1.7% YOY. The sandwich concepts within QSR enjoyed average growth of 1.4%, and while Burger King showed its first decline in nearly three years, Arby's maintained positive momentum and led the group with a 3.7% SSS increase in Q2 2016. After growing SSS by 5.4% in Q2 2014 and 12.8% in Q2 2015, Domino's delivered another impressive quarter of 9.7% growth in Q2 2016.

Cumulative Same-Store Sales Change by Segment



Source: Restaurant Research LLC, Capital IQ, Technomic and company filings

Overall, the restaurant industry's same-store sales performance in Q2 2016 underperformed analyst expectations, and the negative trend appears to be gaining momentum. It is difficult to identify the specific factors that are causing this downward trend in guest traffic and sales across all restaurant segments, as many key economic indicators such as unemployment, household income and consumer confidence signal continued economic improvement, albeit very slowly. Perhaps the trend in the restaurant industry is foreshadowing a tougher environment for the broader economy.

Same-Store Sales ("SSS") Data

	FY 2013		FY 2014				FY 2015				FY 2016	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Fine Dining												
Fleming's	4.2%	4.9%	1.7%	3.6%	4.8%	3.4%	3.0%	3.2%	(0.6%)	(0.3%)	1.3%	(0.8%)
Ruth's Chris	4.2%	5.5%	2.6%	2.8%	4.8%	5.0%	2.8%	4.2%	3.3%	3.2%	3.1%	1.5%
Capital Grille	3.2%	6.7%	0.1%	0.8%	3.9%	5.0%	6.1%	4.4%	7.2%	1.5%	5.3%	3.7%
Del Frisco's	4.4%	5.2%	5.1%	5.2%	8.4%	4.9%	2.3%	1.0%	(1.4%)	(4.5%)	(2.8%)	(2.0%)
Sullivan's	(5.9%)	(0.7%)	(2.1%)	0.9%	0.6%	1.7%	4.8%	(3.0%)	1.2%	(1.8%)	(1.8%)	(2.9%)
Mean	**2.0%**	**4.3%**	**1.5%**	**2.7%**	**4.5%**	**4.0%**	**3.8%**	**2.0%**	**1.9%**	**(0.4%)**	**1.0%**	**(0.1%)**
Casual Dining												
Applebee's	(0.4%)	(0.3%)	(0.5%)	0.6%	1.7%	2.8%	2.9%	1.0%	(0.5%)	(2.5%)	(3.7%)	(4.2%)
Bahama Breeze	2.7%	6.2%	0.8%	4.1%	N/A	(0.6%)	3.2%	1.8%	1.8%	2.4%	9.9%	4.7%
BJ's Restaurants	(2.2%)	(2.7%)	(2.9%)	(1.7%)	0.3%	1.2%	3.2%	0.5%	2.3%	0.7%	0.6%	(0.2%)
Bonefish	(2.7%)	0.9%	(1.5%)	0.3%	2.6%	0.7%	0.9%	(4.6%)	(6.1%)	(5.4%)	(2.7%)	0.9%
Bravo! Cucina Italiana	(3.7%)	(1.3%)	(5.5%)	(6.0%)	(6.7%)	(3.9%)	(1.7%)	(2.1%)	(3.1%)	(5.2%)	(4.1%)	(6.4%)
Brick House Tavern + Tap	4.0%	6.6%	10.0%	8.5%	7.5%	5.7%	5.4%	2.8%	(0.7%)	(2.8%)	(4.5%)	(6.3%)
Brio Tuscan Grille	(5.1%)	(1.5%)	(4.4%)	(4.5%)	(5.2%)	(4.2%)	(1.0%)	(1.6%)	(3.8%)	(4.3%)	(2.1%)	(6.4%)
Buffalo Wild Wings	4.3%	4.0%	5.7%	7.0%	5.8%	5.5%	6.5%	3.3%	2.6%	1.0%	(2.0%)	(2.3%)
Carrabba's Italian Grill	0.0%	0.9%	(1.8%)	(1.2%)	(1.2%)	0.3%	1.9%	0.9%	(2.0%)	(4.0%)	(2.0%)	(4.8%)
Cheesecake Factory	1.0%	1.1%	1.2%	1.5%	2.1%	1.4%	4.2%	2.8%	2.2%	1.1%	1.7%	0.3%
Chili's Grill & Bar	(1.9%)	0.2%	0.5%	2.5%	2.3%	4.2%	2.2%	0.1%	(1.1%)	(2.1%)	(3.6%)	(1.8%)
Chuy's	3.1%	3.0%	4.2%	2.4%	3.0%	3.8%	1.9%	N/A	4.2%	3.2%	3.2%	1.0%
Dave & Buster's	(0.9%)	2.4%	0.7%	4.7%	8.7%	10.5%	9.9%	11.0%	8.8%	6.0%	3.6%	1.0%
Famous Dave's	(2.3%)	(1.1%)	(3.3%)	(2.8%)	(2.3%)	(2.4%)	0.1%	(3.3%)	(3.6%)	(5.2%)	(6.1%)	(4.3%)
Joe's Crab Shack	3.3%	1.9%	(6.0%)	(4.7%)	(4.4%)	(4.5%)	(3.8%)	(4.0%)	(6.6%)	(2.9%)	(1.3%)	(6.8%)
Kona Grill	2.6%	3.5%	6.2%	3.2%	2.7%	3.1%	2.2%	1.0%	1.6%	3.2%	3.6%	2.5%
LongHorn Steakhouse	3.2%	2.9%	0.3%	2.4%	2.8%	2.6%	5.4%	5.2%	4.4%	2.6%	5.2%	2.2%
Maggiano's	0.6%	0.9%	0.2%	0.9%	0.6%	2.3%	0.1%	(0.1%)	(1.7%)	(1.8%)	0.2%	(1.7%)
Olive Garden	(4.0%)	(0.6%)	(5.4%)	(4.2%)	(1.3%)	2.2%	2.2%	3.4%	2.7%	2.8%	4.9%	2.4%
Outback	(0.3%)	1.1%	0.8%	0.9%	4.8%	6.4%	5.0%	4.0%	0.1%	(2.2%)	(1.3%)	(2.5%)
Red Robin	5.4%	3.7%	5.8%	1.6%	1.4%	4.3%	3.8%	3.6%	3.7%	(1.6%)	(2.2%)	(3.2%)
Ruby Tuesday	(11.4%)	(7.8%)	(1.9%)	0.4%	1.1%	(1.0%)	(0.3%)	(1.7%)	0.6%	0.8%	(3.1%)	(3.7%)
Taco Cabana	1.8%	(2.9%)	0.8%	2.8%	3.5%	6.1%	3.8%	5.6%	4.8%	3.3%	1.7%	(3.8%)
Texas Roadhouse	2.9%	2.5%	3.0%	3.0%	5.8%	6.8%	8.7%	8.0%	7.0%	4.4%	4.3%	4.2%
Mean	**0.0%**	**1.0%**	**0.3%**	**0.9%**	**1.5%**	**2.2%**	**2.8%**	**1.6%**	**0.7%**	**(0.4%)**	**0.0%**	**(1.6%)**
Family Dining												
Bob Evans	(1.9%)	(1.8%)	(4.1%)	(2.0%)	0.0%	3.8%	2.1%	(0.3%)	(3.2%)	(3.6%)	(3.0%)	(2.0%)
Chuck E Cheese	(2.1%)	N/A	N/A	N/A	N/A	(1.4%)	(5.0%)	3.0%	0.7%	1.3%	6.0%	2.6%
Cracker Barrel	2.8%	(0.6%)	(0.7%)	1.3%	3.3%	7.9%	5.2%	3.8%	2.5%	0.6%	2.3%	3.2%
Denny's	1.2%	0.9%	1.8%	1.9%	2.4%	4.7%	7.2%	7.3%	6.1%	2.9%	2.5%	(0.5%)
IHOP	3.6%	4.5%	3.9%	3.2%	2.4%	6.1%	4.8%	6.2%	5.8%	1.4%	1.5%	0.2%
Luby's	1.0%	2.4%	1.2%	2.0%	0.4%	0.2%	3.1%	(1.0%)	0.2%	1.2%	3.1%	(0.2%)
Peter Piper Pizza	N/A	N/A	N/A	N/A	N/A	3.4%	6.8%	5.3%	N/A	3.6%	6.0%	2.6%
Steak n Shake	4.2%	2.2%	3.0%	3.7%	2.6%	2.9%	6.0%	4.8%	3.0%	3.6%	1.8%	(0.7%)
Mean	**1.3%**	**1.3%**	**0.9%**	**1.7%**	**1.9%**	**3.5%**	**3.8%**	**3.6%**	**2.2%**	**1.4%**	**2.5%**	**0.7%**

SSS Data (Cont'd)

	FY 2013		FY 2014				FY 2015				FY 2016	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Fast-Casual												
Chipotle	6.2%	9.3%	13.4%	17.3%	19.8%	16.1%	10.4%	4.3%	2.6%	(14.6%)	(29.7%)	(23.6%)
Cosi	(3.6%)	(4.6%)	(9.5%)	(4.7%)	(1.9%)	4.2%	4.4%	2.1%	(0.3%)	0.7%	1.5%	(1.6%)
El Pollo Loco	3.7%	6.5%	7.2%	5.5%	7.9%	7.6%	3.5%	1.3%	0.0%	1.8%	0.7%	2.4%
Fuddrucker's	(0.4%)	(2.3%)	(2.7%)	(3.9%)	(4.6%)	0.2%	2.1%	0.2%	1.7%	1.3%	0.0%	(1.0%)
Noodles & Company	2.1%	3.9%	(1.6%)	0.2%	1.7%	1.3%	0.9%	0.1%	(0.9%)	(1.1%)	(0.1%)	(1.0%)
Panera Bread	1.3%	1.1%	0.1%	0.1%	1.4%	3.0%	0.7%	1.8%	2.8%	2.3%	4.7%	2.3%
Pie Five	N/A	N/A	4.4%	12.9%	17.0%	16.9%	9.5%	6.7%	1.5%	(1.6%)	(4.0%)	(12.0%)
Potbelly	2.5%	0.7%	(2.2%)	(1.6%)	0.5%	3.7%	5.4%	4.9%	3.7%	3.7%	3.7%	1.7%
Qdoba Mexican Grill	2.0%	2.3%	7.0%	7.5%	7.7%	14.0%	8.3%	7.7%	6.6%	1.5%	2.1%	0.6%
Shake Shack	N/A	N/A	N/A	N/A	N/A	7.2%	11.7%	12.9%	17.1%	11.0%	9.9%	4.5%
Zoe's Kitchen	N/A	N/A	5.7%	7.5%	5.9%	7.8%	N/A	5.6%	4.5%	7.7%	8.1%	4.0%
Mean	**1.7%**	**2.1%**	**2.2%**	**4.1%**	**5.5%**	**7.5%**	**5.7%**	**4.3%**	**3.6%**	**1.2%**	**(0.3%)**	**(2.2%)**
QSR												
Chicken												
Bojangles	N/A	N/A	N/A	4.2%	5.3%	7.0%	7.9%	4.4%	4.1%	0.6%	2.0%	0.2%
Church's	1.2%	0.9%	(0.7%)	0.3%	1.7%	3.6%	2.8%	(2.6%)	(4.8%)	(4.6%)	(4.2%)	(2.5%)
KFC	(4.0%)	(5.0%)	(3.0%)	(2.0%)	2.0%	6.0%	7.0%	3.0%	0.0%	3.0%	1.0%	2.0%
Pollo Tropical	6.5%	7.0%	6.3%	6.7%	5.9%	7.7%	6.4%	4.3%	4.2%	0.4%	0.0%	(1.4%)
Popeye's	5.1%	0.3%	4.3%	3.8%	7.2%	10.7%	7.0%	7.9%	5.6%	2.0%	1.1%	0.0%
Mean	**2.2%**	**0.8%**	**1.7%**	**2.6%**	**4.4%**	**7.0%**	**6.2%**	**3.4%**	**1.8%**	**0.3%**	**(0.0%)**	**(0.3%)**
Coffee/Snack												
Baskin Robbins	4.2%	2.2%	0.5%	4.2%	5.8%	9.3%	8.0%	3.4%	7.5%	4.4%	5.0%	0.6%
Dunkin Donuts	4.2%	3.5%	1.2%	1.8%	2.0%	1.4%	2.7%	2.9%	1.1%	1.8%	2.0%	0.5%
Jamba Juice	(3.4%)	0.3%	0.6%	2.5%	3.7%	4.9%	5.0%	(5.9%)	6.6%	5.4%	(2.1%)	4.2%
Krispy Kreme	3.7%	1.6%	3.3%	2.3%	3.7%	3.6%	5.2%	5.5%	3.4%	1.6%	0.7%	3.9%
Starbucks	8.0%	5.0%	6.0%	6.0%	5.0%	5.0%	7.0%	8.0%	9.0%	9.0%	7.0%	4.0%
Tim Horton's	3.0%	3.1%	1.9%	5.9%	6.8%	4.1%	8.9%	7.0%	4.3%	5.8%	5.8%	5.9%
Mean	**3.3%**	**2.6%**	**2.3%**	**3.8%**	**4.5%**	**4.7%**	**6.1%**	**3.5%**	**5.3%**	**4.7%**	**3.1%**	**3.2%**
Mexican												
Del Taco	N/A	N/A	N/A	N/A	N/A	N/A	7.7%	6.0%	5.6%	5.8%	3.2%	3.3%
Taco Bell	2.0%	1.0%	(1.0%)	2.0%	3.0%	7.0%	6.0%	6.0%	4.0%	4.0%	1.0%	(1.0%)
Mean	**2.0%**	**1.0%**	**(1.0%)**	**2.0%**	**3.0%**	**7.0%**	**6.9%**	**6.0%**	**4.8%**	**4.9%**	**2.1%**	**1.2%**
Pizza												
Domino's	5.4%	3.7%	4.9%	5.4%	7.7%	11.1%	14.5%	12.8%	10.5%	10.7%	6.4%	9.7%
Papa John's	1.8%	6.6%	9.6%	6.0%	7.4%	4.1%	6.5%	5.5%	3.0%	1.9%	0.1%	4.8%
Papa Murphy's	3.0%	4.0%	3.3%	1.5%	1.5%	N/A	5.6%	4.5%	1.4%	(3.1%)	(3.0%)	(4.0%)
Pizza Hut	(1.0%)	(4.0%)	(5.0%)	(4.0%)	(2.0%)	0.0%	(1.0%)	1.0%	0.0%	2.0%	5.0%	1.0%
Pizza Inn	(3.5%)	(4.1%)	4.4%	N/A	4.6%	6.4%	6.0%	0.2%	(1.1%)	(1.7%)	(2.2%)	0.3%
Mean	**1.1%**	**1.2%**	**3.4%**	**2.2%**	**3.8%**	**5.4%**	**6.3%**	**4.8%**	**2.8%**	**2.0%**	**1.3%**	**2.4%**
Sandwich												
Arby's	N/A	N/A	N/A	6.3%	10.4%	4.9%	9.7%	7.6%	9.6%	5.5%	5.8%	3.7%
Burger King	(0.3%)	0.2%	0.1%	0.4%	3.6%	4.2%	6.9%	7.9%	5.2%	2.8%	4.4%	(0.8%)
Jack in the Box	(1.4%)	1.9%	0.7%	2.4%	3.1%	4.4%	8.9%	7.3%	6.2%	1.4%	0.0%	1.1%
McDonald's	0.7%	(1.4%)	(1.7%)	(1.5%)	(3.3%)	(1.7%)	(2.6%)	(2.0%)	0.9%	5.7%	5.4%	1.8%
Sonic Drive-In	5.9%	2.2%	1.4%	5.3%	3.5%	8.5%	11.5%	6.1%	4.9%	5.3%	6.5%	2.0%
Wendy's	3.1%	2.9%	0.7%	3.2%	0.8%	1.7%	3.2%	2.2%	3.1%	4.8%	3.6%	0.4%
Mean	**1.6%**	**1.2%**	**0.2%**	**2.7%**	**3.0%**	**3.7%**	**6.3%**	**4.9%**	**5.0%**	**4.3%**	**4.3%**	**1.4%**
Mean Total QSR	**2.1%**	**1.5%**	**1.8%**	**2.9%**	**3.9%**	**5.2%**	**6.3%**	**4.3%**	**3.9%**	**3.1%**	**2.3%**	**1.7%**

Shareholder Activists Agitating Public Restaurant Companies: Friend or Foe?

Shareholder activism is when a stockholder publicly voices his or her opinion on improving or changing the direction in which a publicly listed company is heading. Activist shareholders can also engage in more agitating conduct such as letters to boards of directors, public announcements, annual meeting catalyst activity or even litigation. Shareholder activism takes on many forms and has been around since the 1980s. In fact, shareholder activism is taking on such a big role now it could be considered an asset class in and of itself. There are approximately $120 billion of assets under management in activist funds, excluding pension and mutual funds, which sometimes engage in activism.

The two most common shareholder activist objectives today are traditional governance & operational reform and greenmail. While it's difficult to generalize in this sector, improvements in corporate governance and operations are generally long-lasting and greenmail is generally a one-time event that may or may not provide long-term benefits. The two principal motivators here are 1) reforms that benefit shareholders, employees, customers and suppliers versus 2) fire sales, share buybacks and extraordinary dividends, which may not have lasting benefits. The restaurant industry is the largest employer in the United States, and the correct approach to employees can lead to improved customer service and retention. This generally leads to greater profits, which keep shareholders happy. So it is at great risk that companies place sole emphasis on cash flow, return on capital or share price at the expense of long-term performance, stability, and employee and customer retention. There are success factors in restaurant operations that cannot be directly reflected by cash flow or return metrics but in the long run enhance enterprise value.

Shareholder activists frequently advocate for corporate governance reform such as the alignment of executive strategy, behavior and officer and director compensation with shareholder interests. Pension and mutual funds have frequently aligned themselves with advocacy entities such as ISS ("Institutional Shareholder Services") in corporate governance reform movements in order to improve long-term performance. Pension funds are typically "going away" investors in equities with a long-term perspective and therefore are generally sensitive to non-financial performance as well as profitability, share price growth and financial benchmarks. One of the most common shareholder activities in the pension fund and mutual fund world is to agitate for companies to separate the offices of chairman and CEO. Historically, many CEOs were also elected or appointed as board chairman, which many investors believe could potentially cause accountability issues when chairmen have the ability to propose board members. A situation could arise under those circumstances where the chairman has appointed most of the board whom he also answers to as the CEO. This can lead to less than ideal accountability and ISS and other governance advocates along with leading mutual funds and large public pension funds have strongly come out against this concept with limited exception.

The greenmail issues become a little more difficult to analyze because some of this activity, while perhaps nefarious at the core, can lead to changes that benefit all shareholders. But more often than not, greenmail consists of burning Rembrandts to stay warm. Companies that are encouraged to take on debt to buy stock or to sell hard assets and distribute the cash to shareholders can find themselves with an impaired balance sheet and less tangible assets, which is a poor foundation for accessing credit markets when they are most needed. Many public restaurant companies that own large percentages of their restaurants have found themselves in the crosshairs of activist investors hoping that these companies will refranchise restaurants and use the proceeds for dividends or share buybacks. Several restaurant companies including Darden, Ruby Tuesday, Red Robin, Buffalo Wild Wings and Chipotle have been targeted by activist shareholders, ostensibly because they have large portfolios of corporate owned restaurants. Activists have in some cases agitated for the sale of these restaurants and real estate and the application of the proceeds to dividends or share buybacks. This is a very complicated issue that has to be carefully vetted because once implemented you can't get the toothpaste back in the tube.

There is a theory and demonstrable evidence supporting the notion that franchisees are capitalists using their own money and will generally outperform their franchisor given the opportunity to operate the same set of restaurants. Trinity's experience in 20 years of restaurant financing and M&A has overwhelmingly supported the notion that franchisees with skin in the game generally outperform their corporate counterparts at the franchisor. This observation is not lost on shareholder activists. Equally important, there is a school of investors that prefer a royalty payment to restaurant operating income because royalty income is generally more stable and may even expand a P/E ratio for public companies. Franchisors of restaurants collect a royalty off the top line like a movie studio. Accordingly, they do not suffer the vagaries of increasing wages, regulation, food cost, taxes, utilities, insurance, maintenance, litigation and remodeling. The royalty income enjoyed by a franchisor is also a mathematical second derivative and has demonstrably less volatility than operating income given the abundance of components in a restaurant profit and loss statement. Finally, there is a significantly lower liability and regulatory profile in collecting royalties than operating restaurants with ovens, knives, slippery floors and young employees that are not always safety minded.

As compelling as that analysis is, if a franchisor divests all of its restaurants and the related real estate, it becomes devoid of tangible assets, which significantly diminishes its attractiveness and ability to borrow in the credit markets (bank and bond borrowing markets). This may prove to be strategically stifling for small to midsize concepts that use capital to grow. And a midsize concept without any growth is unsuitable for public equity markets. Moreover, a franchisor that confines its profitability and risk profile into the hands of franchisees severely limits its strategic options, particularly with "old school" concepts. If a concept or its franchisees begin to perform poorly and royalty income begins to spiral downward, a franchisor will have few financial options to fund programs and initiatives to address the malaise.

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The Wave of Restaurant Bankruptcies

For the last few years we have witnessed, analyzed and written about the battle for market share between restaurant segments and concepts. The simplest example is the emergence and steady growth of the fast-casual segment, which has largely come at the expense of the casual dining segment. When it comes to dining out, today's consumers have overwhelmingly shown their preference for concepts that provide convenience, order customization, speed-of-service, quality ingredients and value. These characteristics are most appealing to millennials, who now represent a larger portion of the population and dine out more frequently than baby boomers. In this regard, the casual dining business model is at a tremendous competitive disadvantage relative to the fast casual structure.

Additionally, the low interest rate environment has led to restaurant companies taking on more debt, but with the increased competition from new fast casual concepts, older restaurants are losing guest traffic and cannot sustain those large debt balances. Since the Great Recession, most concepts in the casual dining segment have had to rely on price increases to mitigate or offset the declines in guest traffic. This strategy can be an effective near-term solution, but in the absence of product differentiation or adjustments to the business model, it is unlikely to salvage a sinking ship.

In the past 11 months, 16 multi-unit restaurant chains have filed for bankruptcy. That group includes nine casual dining concepts, five family dining concepts and one fast casual concept. And as shown in the table below, the rate of bankruptcy filings is picking up.

Recent Chain Restaurant Bankruptcies

Date	Concept(s)	Segment
10/4/2016	Don Pablo's	Casual Dining
10/3/2016	Souplantation, Sweet Tomatoes	Family Dining
9/28/2016	Cosi	Fast Casual
9/7/2016	Zio's Italian Kitchen	Casual Dining
8/10/2016	Fox & Hound, Champps Kitchen, Bailey's Sports Grille	Casual Dining
8/8/2016	Logan's Roadhouse	Casual Dining
7/15/2016	Johnny Carino's	Casual Dining
3/4/2016	Old Country Buffet, HomeTown Buffet, Ryan's	Family Dining
12/2/2015	Black-eyed Pea	Casual Dining
11/16/2015	Quaker Steak & Lube	Casual Dining

Source: Company filings and publicly available information

Rita Restaurant Corp., the operator of Don Pablo's, is the latest restaurant company to file for bankruptcy and said, "Despite the relatively steady economy in most of the United States, the casual dining environment remains depressed." Peter Donbavand, Vice President of Business Development for Rita Restaurants, said in a statement, "Increasing minimum wage requirements, more expensive employee benefit plans and rent hikes in many locations all add to mounting expenses. Add to that the recent slowdown in industry-wide sales and at our restaurants, and we cannot continue to operate under current obligations." This sentiment echoes what many other owners and operators in the segment have expressed, but Last Call Guarantor LLC, operator of Fox & Hound, Champps and Bailey's Sports Grille, had a slightly different challenge. In the company's bankruptcy filing, it said the Affordable Care Act played a part in its downfall…not because of the added healthcare costs, but because trying to avoid following the law proved too costly. Last Call admitted this change was an ill-advised choice because it caused many of their workers to simply look for jobs elsewhere. As a result, the restaurant chain had to invest more money into finding, hiring and training new employees. "High turnover results in higher labor costs," the company was quoted as saying.

It is hard to see a catalyst on the horizon that could halt this steady march of declining guest traffic. As a result, we expect to see additional store closures and bankruptcies in the foreseeable future, particularly for the older casual dining concepts that fail to attract millennial consumers. "I'm hoping that some more inventory will come out of the system. We've seen some big announcements of closures lately," said Darden CEO Gene Lee. The real estate industry has yet to come to terms with the implications of the industry-wide slowdown in restaurant traffic. In addition, many segments of the restaurant industry are over-built and have occupancy costs that are no longer sustainable in the current environment. We predict a significant change in landlord dynamics for the restaurant industry in the foreseeable future.

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